

Resolution 2016-3 Reserve Fund Assessment

- A. An assessment of \$10.00 per month will be added to water bills for all properties receiving water from S&T Mutual and will remain in effect until the Reserve Fund balance reaches \$300,000. This assessment will go into effect beginning in May 2016. (see attached for background)*

The above resolution was presented to the Board of Directors at the February 24th 2016 meeting.

The resolution was passed with the following vote:

Aaron Floyd – absent

Lee Harry - yea

Bill Garfinkel – yea

Frank Freiler – abstain

Charlie Cote - yea

Background

In 2015 our reserves decreased by \$39,307. This came about as a result of performing critical maintenance on our two water tanks plus what we paid for our share of the costs to adjudicate the Los Osos groundwater basin. As a result, at the end of 2015 we only had \$36,723 left in reserves. This amount far below what would be required to pay for a water infrastructure emergency or to cover the costs of capital improvement to our system as required by California State law AB54 – Section 14301(b) enacted in 2012.

Over the years S&T had relied on the revenues we collected that were in excess of what our operating costs required in order to build sufficient reserves for emergencies. Also up until the end of 2015 we operated with only a single account for income and operating expenses and to cover any unbudgeted costs that might occur. As a result, in 2011 we were able to subsidize most of the cost of the water meter project with nearly \$200,000 from that operating account.

With our operating account running low in 2015 we realized that we needed better control over the two roles for our finances. In the 4th quarter of last year we decided to take funds from the operating account and established a separate Reserve Fund account solely for the purpose of covering the costs associated with capital projects and emergencies. By being a separate account it prevents comingling those funds with the operating funds.

After preparing our 2016 budget (approved by the Board in December 2015) we turned our attention to reviewing water rates to insure they would cover both our anticipated expenses and have sufficient cash left over to deposit into the newly formed Reserve Fund. What we found was that our current rate structure would provide sufficient fund to cover budgeted operating costs but it left only a small amount that could be transferred to reserves.

Several years back the Board determined that we needed to have approximately \$300,000 in reserves in order to be able to cover a major failure in our water delivery system. To achieve that amount in a reasonable timeframe we need to accelerate contributions to the Reserve Fund over and above what becomes available from water

revenues. Therefore, with Resolution 2016-3 we will start building the reserve fund with an additional \$21,480 per year until we have reached the \$300,000 goal at which time the assessments will cease.

The assessment will go into effect beginning in May 1st and you will see it as a separate line item on your July 1st water bill.

We thank you for your understanding of the need to keep S&T financially strong and ensure that we reliably deliver to you the highest quality water.

Sincerely,

S&T Mutual Water Company Board of Directors

Sample Uses of Reserve Fund account

Emergencies

- Tank Failure
- Main Pipe Break
- Pump Failure
- Well Failure
- Hydrant Break
- Lateral Breaks
- High Chloride Response
- Need to Purchase Water
- Defend Against Lawsuits

Projects

- Replace Northern Tank
- Replace Southern Tank
- Retire Northern Wells
- Replace Transite Pipe
- Meter Transmitter Replacement
- Main Line Intertie

Anticipated Time Frame

- 7 - 8 yrs.
- 10 -13 yrs.
- 6 -10 yrs.
- unscheduled
- 10 -12 yrs.
- 3 – 5 yrs.